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OBSERVATIONS ON THE MARKET No. 225*By Greg Denewiler, CFA*

One of the nice things about living in Denver is that even in the middle of winter, we get periods of really nice weather. Considering everything that has gone wrong with the economy in the last two years, it seems almost impossible that we would be discussing several factors that point to what could be another good year for investors.

Job growth appears to be on the verge of showing net gains. The first thing that companies do once the economy starts growing again is to hire temporary workers. Since October of 2009, employment of temps has increased by 248,000, a 15% gain. This is one of the strongest gains on record. Few events could help consumer confidence in the short run more than the economy finally starting to experience job gains.

Corporate guidance is pointing towards continued strong earnings performance. Companies love to report earnings that beat expectations, and one of the ways they do this is by guiding analysts downward as they see the quarter close. Guidance historically runs about 2 to 1 to the negative, meaning twice as many companies lower their earnings estimates as opposed to raising them. In the fourth quarter of last year, the ratio of negative guidance declined to 1.1 to 1. The trend for this quarter is running only slightly higher. It is a very positive indication that the first quarter of 2010 will be another strong one for earnings. It leaves us with a real possibility that earnings could recover back to the highs of

2007 in only a few more years.

The aggressive dividend cuts of last year are also starting to reverse, and the environment exists for strong dividend hikes this year. The ratio of cash to assets for the companies in the S&P 500 ex financials is at a 35 year high. The government may not have their house in order, but corporate America does.

Finally, one of the biggest drivers that determine long-term stock valuations is the level of interest rates. Just like low interest rates make a house more affordable, lower interest rates also support higher stock prices. Since corporations and consumers are paying down debt, it appears that it is allowing the treasury to borrow more without driving up interest rates, at least in the short run. It is simply a function of one debtor taking the place of another. This, most likely, is not sustainable, but may at least hold through the end of the year.

This all seems to add up to a window in which the stock market moves higher this year. It seems to explain why the corrections in the market have been so short lived. The odds of predicting this scenario unfolding a year ago were probably as good as predicting health care would past four months ago. Things don't always happen the way we think it will. This does not suggest our problems are solved by any means, just that we are experiencing a temporary reprieve from the weather.